Airways’ Proposed Price Reduction from 1 July 2018

Airways has completed its revenue forecast for the year ending 30 June 2019 and is pleased to advise airline customers that volume growth for the 2016-2019 pricing period has exceeded expectations. Consequently, **Airways is proposing to reduce average published prices for airlines by 1.8% from 1 July 2018.** This means prices will increase by 2.6% on 1 July 2018, but will be 1.8% less than originally proposed.

Background

Airways sets its prices to recover its forecast costs on a three-yearly cycle. Over a three-year period there can be unforeseen variations in the volume of air traffic, which will affect the amount of revenue Airways receives. Airways has a risk-sharing mechanism in place to share this volume risk between Airways and its customers. This mechanism requires Airways to make a forecast of the next year’s revenue and make a price adjustment if the expected revenue is more than ±2% different from the target revenue set as part of the three-yearly pricing consultation.

Price change for 1 July 2018

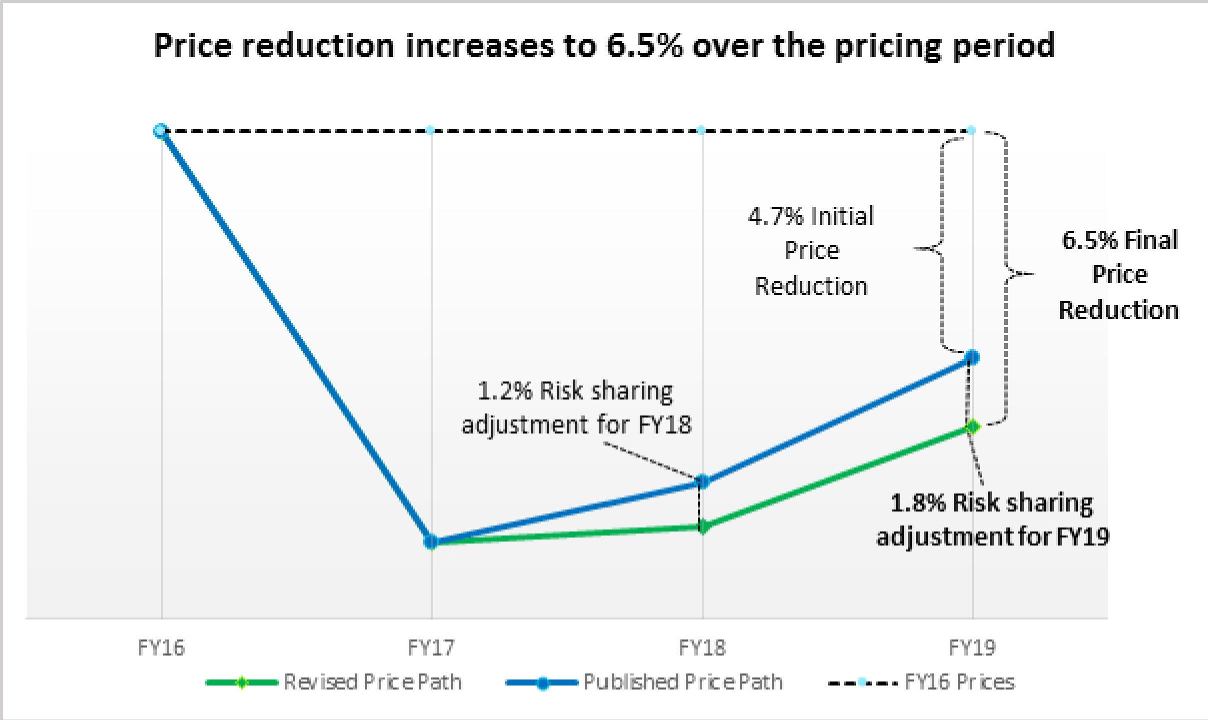
Airways previously assumed that domestic growth for FY18 would be relatively flat, with FY19 showing a slight retraction. However, updated airline schedules show slight growth in FY19 that builds upon the strong growth from FY18. International growth is also higher than the assumptions made when Airways’ prices were set in 2016. These increased volumes mean that Airways can lower its prices by 1.8% from 1 July 2018 (relative to what those prices would have been with no adjustment) and still expect to recover its costs.

The 1.8% price reduction is cumulative. It comprises 1.2% from FY18 plus 0.6% from FY19. Taken across the 2016-2019 pricing period, Airways had originally expected there would be a 4.7% price reduction over this time. This will now increase to a 6.5% reduction over the three-year period. The net impact for the coming year is a price increase of 2.6% from 1 July 2018 as outlined in the following table and graph.

Updated price path.

	FY17	FY18	FY19	TOTAL[1]
Initial price path	(9.8%)	1.6%	3.2%	(4.7%)
Price reduction	-	(1.2%)	(0.6%)	(1.8%)
Revised price path	**(9.8%)**	**0.4%**	**2.6%**	**(6.5%)**

[1] Totals include a compounding effect, so may not add across.



Key factors informing the new forecast

International Customers:

• Air NZ International grow Houston-Auckland in Apr18; grow Sydney-Auckland, start Chicago-Auckland in Dec18.

• American Airlines shorten their Los Angeles-Auckland season in FY19.

• Emirates stop Melbourne-Auckland, Brisbane-Auckland in Apr18; start Denpasar-Auckland in Jun18.

• Jetstar International trim Sydney-Queenstown, Melbourne-Queenstown in Jun18.

• Qantas Airways grow Melbourne-Auckland, Brisbane-Auckland in Apr18.

• Virgin Australia stop Apia-Auckland in Nov17; trim Sydney-Christchurch in Nov18.

Domestic Customers:

• Air Nelson stop Auckland-Paraparaumu, trim Auckland-Nelson in Apr18; grow Auckland-Tauranga in Jun18.

• Air NZ National grow Auckland-Wellington in Mar18; trim Auckland-Queenstown in May18; trim Christchurch-Queenstown in Nov18; grow Wellington-Queenstown in Mar19.

• Jetstar Domestic trim Wellington-Auckland, Auckland-Queenstown in May18; trim Christchurch-Auckland in Jun18.

• Mount Cook grow Auckland-Nelson, Wellington-Hamilton in Jul18; grow Christchurch-Hamilton in Nov18.

The significant revenue changes impacting FY19 are summarised above. **Airways invite customers to provide additional schedule or fleet information by 14 May 2018. Airways will consider this additional information before finalising prices by 31 May 2018.**